

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

AUGUST 31, 1942

The President's Scratch-Pad



ALVIN E. DODD

Whenever the subject of employee suggestion plans is discussed at a meeting of industrial managers, someone in the group inevitably will admit that the suggestion system in his company was a failure. Indeed,

as the discussion continues, you may be able to infer from the remarks of the other members who are not so frank that the plans in their organizations also failed or at least have fallen into disuse.

In many companies, of course, employee suggestion programs have proved outstandingly successful, and careful and wise administration is the answer to this success. Suggestion programs pay dividends in direct proportion to the amount of attention they are given. But in all too many instances concerns won't give this attention.

It is not surprising, therefore, to hear from a spokesman from the newly-formed National Association of Suggestion Systems, that nearly 95 per cent of the suggestion plans that have been instituted have fallen into decay, generally after auspicious beginnings. Among the reasons mentioned for these failures were inadequate machinery for the consideration of suggestions; a lack of proper publicity to increase interest and thinking of employees; and inadequate monetary recognition for reward winners.

Previous studies of the suggestion system idea have recognized these common defects. But is there not a more fundamental reason for the failures? When employees are asked to make suggestions for improving the work process they are being invited to play a little of the managerial role. Yet they have never been trained for the part. Would not suggestion plans be much more fruitful if employees were given some training in elementary management methods, if they knew work simplification and motion study principles?

Then, instead of merely possessing the "know how" of their jobs, they would also comprehend the "know why." They would be able to take a critical approach to their jobs or to the work of their department. They would begin to understand the real nature of their work and realize that they are not merely "cutting wood" but heating a house.

Experience with joint management-labor committees sponsored by the War Production Board has shown that, fruitful as some of the individual drives have been, the total effort could have been much more effective if some educational work among employees had been entered upon before the drives were initiated. Some steps toward this kind of education have been taken—especially by the Training Within Industry Branch of the War Manpower Commission. Teaching and teaching others how to teach is a primary management function, and to this the Training Within Industry Branch has given intensive study. Thousands of individuals have learned the principles of job instruction training and are continually passing this knowledge on to others. Now the TWI is inaugurating a further development known as Job Methods Training, which is even more fundamental in its implications. This is calculated to teach employees the principles of job methods planning.

In the past the dissemination of managerial knowledge among workers has been confined to the supervisory employee ranks, but as the war goes on this tradition will be broken more frequently. Since the birth of the scientific management movement, the principles of industrial processes have steadily been reaching a larger part of the nation's working population. Because of the broad educational opportunities existing in a democracy such as the United States, one can expect further progress of this kind, until ultimately the rudimentary principles of management will be known to all who qualify for industrial jobs. Our productive potency at that time will be far beyond anything we know today.

Alvin E. Dodd

BUSINESS OUTLOOK

That the shadow of inflation, chief menace to the homefront, continued to lengthen in recent weeks is shown in all the indexes and authoritative opinion that comprise the summaries on the inside of this Letter.

Most dramatic single event in the inflation battle was the WLB decision in the Little Steel case. Many authorities believe this decision more than offsets the steadying effect of the General Maximum Price Regulation with its direct stabilizing influence on commodity prices and the consequent orderly markets and discouragement of panicky buying.

National income continued to soar to new heights reaching an annual rate of \$113 billions in the second quarter of this year. But war expenditures ate up 38% of this amount and threaten to consume a large proportion.

Money in circulation increased \$147,000,000 in the most recent week for which tabulations are available, and the yearly gain was \$2,999,000,000. Excess reserves of all member banks, however, declined almost as much in the year, \$2,768,000,000. In about a year and a half, approximately two-thirds of the maximum accumulation of excess reserves was wiped out, and the current total of over \$2,000,000,000 would be lower except for recent Federal Reserve open market operations.

Stock prices were down fractionally according to most recent reports available on a week-to-week basis, but in comparison with prices a year ago suffered a 20% drop. The annual rate of dividends on industrial common stocks dropped 15% in the first half of the year.

Production remained virtually unchanged on a month-to-month basis, with railroad traffic threatening to become a worse bottleneck than material shortages. The fear that taxation is so heavy that producers stand to lose more than they will make in the long run is being voiced in many quarters, especially with renegotiation putting a limit on net before taxes.

Besides the bugaboo of the Little Steel decision, the highest quit rate on record, 38 out of 1,000 in May, is irritating the labor situation.

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	Alexander Hamilton Institute	Brookmire, Inc.	Business Week
General Outlook	National income rose in June for the fourth consecutive month, and preliminary information indicates a further expansion in July. This expansion was nearly sufficient to offset the four months' seasonal recession which occurred after the record peak of last October. The national income in June was \$10,295,000,000 (Aug. 15).	Symptoms of inflationary influences are noticeable in the substantial gains over a year ago in payrolls, farm income, and other sources of consumer income. When supplies of civilian goods are restricted, it is difficult for the government to take effective steps in sterilizing excessive buying power (August 12).	The <i>Business Week</i> index of business activity for the week ended August 8 dipped slightly from the revised figure of 185 a week earlier to 184.2 (preliminary). However, in comparison with a year ago, when the figure was 159.8, the gain is still considerable (August 15).
Money and Credit	Reserve bank holdings of government securities at the end of July were \$926,000,000 larger than a year ago. Since our public debt and Great Britain's are so large and are certain to increase, it is fair to assume that the policy of low money rates will be adhered to during the war and for a considerable period after (August 15).	Continued increase in bank deposits is a manifestation of the inflationary forces at work. Net demand of bank deposits of Reporting Member Banks on August 5 of \$26,138,000,000 was 7.9% greater than a year ago and 3.5% greater than a month ago (August 12).	Money in circulation (Wednesday series) totaled \$12,794,000,000 in the latest week reported, a gain of \$147,000,000 over the previous week and of \$2,999,000,000 over a year earlier. Excess reserves of all member banks decreased almost as much in the year period, from \$5,018,000,000 to \$2,250,000,000 (August 15).
Security Markets	Stock prices the past week lost ground slightly, but the averages still remain above the computed trend line and the decline has not brought about a testing of resistance points. Volume continued low and more than two points on the average remain between present levels and the normal limit of a secondary reaction (August 13).	The chief laggard in the economic upswing is still the stock market. Whereas most industrial and business indexes are running above 1941 (with many breaking all-time records), stock prices are down. A further sign of stagnation in the market is the fact that July volume was less than half the figure for July, 1941 (August 12).	Standard and Poor's Corporation's price index of 90 stocks dropped slightly from 67.8 a week earlier to 67.4 in the latest week for which figures are available. The drop is noticeable when compared with the index of 69.8 a month ago and especially when compared with 80.9, the figure a year ago (August 15).
Production	The increase in the national income from May to June was due entirely to a rise in the quantity of goods produced, which in turn was due to a rise in factory output to the highest volume on record. Steel production was slightly smaller in June than in May, but cotton mill activity and electricity output showed gains (August 15).	An industry that helps notably to spur the war program and is therefore intensively active is machinery—recording a 30.8% gain over a year ago. The let-down in civilian lines has reached a point where the general upsurge in activity that was so manifest in 1941 is decelerating (August 12).	Steel ingot operations were at 96.5% of capacity in the latest week for which figures are available, a gain of less than 1% over the preceding week and the year-ago figure. Production of automobiles and trucks had declined to 19,240, compared with 18,260 a week earlier and 41,795 a year earlier (August 15).
Distribution	According to Fairchild's price index, prices of goods sold by department stores in July averaged 15.8% higher than a year ago. This indicates that the quantity of goods sold in July was 11.5% smaller than last year's volume since the value of sales showed an increase of only 2.5% (August 15).	The value of department store sales in July was 19% smaller than in June, and only 2.5% larger than a year ago. Variety-store sales (seven chains) gained 0.8% in June over May and 16.6% over June, 1941. Mail order sales (two houses) declined 1.3% from May to June and 10.5% from June, 1941 to June, 1942 (August 12).	July department store sales bounded 13 points reversing a five-month downtrend. Sales are low in summer and even a moderate pickup looks big in the adjusted index. Since the freeze has stabilized department store quotations at 16% above last year, prices now act as a double deterrent to sales (August 15).
Construction	Building contracts spurted sharply in June and reached the highest volume on record despite non-essential civilian restrictions. Secretary of Labor Perkins states that public construction work rose to \$4,000,000,000 during the first half of 1942 from \$2,400,000,000 in the same period last year (August 15).	The index of building permits in June dropped to 58.7, a decline of 27.7% from a month ago, according to the Labor Bureau, and 70% under a year ago. Engineering building contracts, according to <i>Engineering News-Record</i> gained almost as much in the year, 64.5%, and in June averaged \$969 million weekly (August 12).	Government contracts call for 43,188 prefabricated-demountable houses to cost about \$150,000,000, out of a total of over 300,000 homes costing nearly \$1,700,000,000 to be built in 1942. By July 1, the number of family dwelling units programmed was 316,166 of which 251,269 were under construction and completed (August 15).
Agriculture	The index of farm product prices for the week ended August 1 stood at 100.7, an increase of 21.1% over a year ago. The highest figure recorded so far this year was 101.0, and the lowest 92.4. Shipments of farm products in June showed an increase of 7% over a year ago (August 15).	The index of farm income (seasonally adjusted) for June according to the Department of Agriculture was 180.2. This was a gain of 0.3% over a month ago and of 35.9% over a year ago (August 12).	Prices of domestic farm products showed a gain in the latest week for which figures have been computed, with the index registering 183.3 in comparison with 180.7 a week earlier. Compared with a month earlier the change was imperceptible. However, the figure a year ago was only 152.8 (August 15).
Commodity Prices	The increase in the price index (BLS, 28 basic commodities) for the week ended August 1 over the previous week was accounted for by advances in the prices of wheat, flaxseed, barley, butter, hogs and steers. These more than offset declines in corn, rosin, cottonseed oil and wool tops (August 15).	The price index of 28 basic commodities, as compiled by the BLS, extended its recovery movement during the week ended August 12, but did not regain its wartime peak. The latest index was 167.2, as compared with 168.0 a month ago and 150.5 a year ago (August 12).	Commodity prices for the latest week for which figures are obtainable did not vary from the preceding week. Moody's spot commodity index remained at 230.2. A month ago it stood at 233.0, and a year ago at 211.9 (August 15).
Labor and Wages	The factory employment index, as compiled by the Bureau of Labor Statistics, rose in June to a record high figure of 138.4 from 137.1 in May and from 127.8 in June last year (August 15).	The index of factory payrolls in June, according to the Labor Bureau, was 194.5. This was an increase of 1.4% over May, and a gain of 27.8% over June, 1941. The index of non-farm income, as computed by the Department of Agriculture, at 163 in June was 1.7% above May and 18.2% above June, 1941 (August 12).	Jan. 1, 1941 to May 1, 1942 is the base period selected by NWLB for the cost of living formula. It wants to apply to all wage controversies. Hourly wages would be allowed to rise so that they balance the percentage increase in living costs for these 16 months. For the nation as a whole NWLB says this is a flat 15% (Aug. 15).
Foreign Trade and Conditions	During the war period, the ratio of cash of England's Joint Stock Banks to their total deposits has remained practically unchanged, fluctuating from about 10 to 11½%. This ratio has been maintained even though their total volume of deposits at the end of May was nearly \$900,000,000 larger than the 1939 average (Aug. 15).	The Canadian dollar at 89.7c on August 12 showed a decline of 0.4% over the previous month but a gain of 1.2% from a year ago. The former par was \$1.6931 in terms of the 59c dollar (August 12).	Foreign trade was swept one step closer to complete government regimentation this week when WPB narrowed to 500 items the list of goods for which shipping priorities will be allowed by all ships controlled by the War Shipping Administration. Included are all the strategic raw materials essential for the war (Aug. 15).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

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Dun's Review

The boom conditions of the war economy are most prominent in the rising curves of total production and employment. Civilian industry suffers increasingly from the stringency of materials supplies and lags below last year's record levels. Trade buying remains relatively cautious. Prices rise very slightly (September).

The volume of check clearances was hardly changed from June to July. Clearings in 24 cities amounted to \$31,650,826,000, an increase of 15% over last July. Business failures decreased from 804 in June to 764, but the adjusted insolvency index advanced from 46.2 to 48.0, against 56.0 last July (September).

The continued apathy of stock market trading allowed prices to drift without establishing any significant trend. At 107 on August 17 the Dow-Jones industrial average was 1 point lower than a month earlier. Turnover on the N. Y. Exchange averaged only 245,000 shares daily during the first half of August (September).

The increase in industrial activity has been slowed but not halted by the tightness of basic raw materials. War goods production continues to expand. With a widening area operating under direct curtailment orders, civilian industry is also hit by shortages of skilled help and materials and by a lag of new orders (September).

The expansion of incomes is partly diverted to savings and the reduction of consumer debts. Retail trade held at better than seasonal levels in July but was 2% less than last July, according to the Dun's Review index, with the gap widening further in August (September).

Building activity, measured by contract awards, remained at peak levels in July, with volume 63% greater than a year ago. But the decline in the volume of planned building, particularly private, reflected in the value of permits granted in major cities; a total of \$60,517,283 in July was 61% less than last July (September).

Price changes were generally small, but the wholesale average increased slightly in July and held the higher levels into Aug. At 157 in mid-Aug., the Dun & Bradstreet daily index compared with a low of 154 two months earlier. Retail prices in July (Fairchild index) held unchanged for the first time since Sept. 1940 (September).

Employment rose for the third successive month to reach a new high in July of 54,000,000 persons, according to WPA estimates. Non-agricultural employment, which accounted for 42,300,000 of all workers employed, was up 5% in the year. Unemployment of 2,800,000 contrasted with 5,700,000 a year ago (September).

Cleveland Trust Company

Our national income is far higher than ever before. During the 25½ years from the beginning of 1917 to the middle of 1942, our national income has varied from annual rates as low as \$45 billions early in 1914 and again in 1933, to the high level of \$113 billions reached in the second quarter of this year (August).

In the second quarter of 1942 our war expenditures were nearly 38% as great as our national income. In the second quarter of last year our war expenditures were nearly 11% as large as our national income. The advance is swift and the percentage level is destined to mount a good deal higher (August).

Physical volume of industrial production was almost the same in June as in May, 19% above normal, according to preliminary figures and a revised index. Available figures indicate that July production increased slightly. Railroad traffic will be the limiting factor which will restrict our munitions production (August).

Building construction will almost surely make an all-time high record this year despite the fact that almost all building not directly contributing to the war effort has been suspended. During the first half of this year four-fifths of all new construction was directly or indirectly war work (August).

Agriculture is prosperous, and this year's crops will be large in quantity and high in quality, and they will be marketed at good prices (August).

Labor is almost fully employed, and at the highest wages that have ever prevailed. In May the monthly quit rate per 1,000 workers had risen to a fraction above 38, the highest on record. A quit rate of that size, if continued for one year, would result in the loss of nearly one-half of the workers (August).

Probably Canada is spending on her war effort amounts that are nearly 50% as great as her national income, and Great Britain as much as 55%. Estimates as high as 60% have been made in the case of each of the Axis nations (August).

National City Bank

The WLB decision awarding a wage increase to Little Steel workers and establishing principles to govern future wage changes overshadowed other developments in the domestic situation in July. The wage increase is spreading to other steel companies, and the formula on which it was based allows advances in other industries (August).

Within about a year and a half, approximately two-thirds of the maximum accumulation of excess reserves was wiped out, and the current total of over \$2 billions would be still lower but for the substantial additions to money market funds recently effected through Federal Reserve open market operations (August).

Between December 31, 1941 and June 30, 1942, the average annual rate of dividend being paid by industrial common stocks declined from \$2.09 to \$1.76 per share, according to Moody's index. Dividend rates have now fallen below the level of June, 1940, when the enlarged national defense program was begun (August).

Although the principle that no unjust enrichment should result from the war justifies the levying of abnormally high taxes, other principles are involved. One is that expansion of war production should not be hampered by taxation so heavy that the producer stands more chance of ultimate loss than of gain (August).

The government principle of the decision that wage rates should be raised in proportion to rises in living costs, establishes a "parity" objective for labor, similar to that established for the farmer by law. The pursuit of parity, however, perpetuates the inflationary spiral (August).

The farm bloc in Congress has moved again for higher farm prices. Early in July the Senate passed, and the House Committee on Agriculture approved, a bill to make government loans on six staple farm crops at full parity prices, instead of 85% of parity as required by the present law (August).

Commodity price stability since the General Maximum Price Regulation was issued has been a gratifying feature of the news. It has reestablished orderly markets, allayed panicky stocking of goods, and held the cost of living steady, which provides a base for stabilizing other elements in the inflation spiral (August).

Factory payrolls through May had increased 60% since January, 1941, and are rising steadily. The aggregate increase since the war has been 111%. From the viewpoint of avoiding inflation, neither present taxes nor those in the new bill passed by the House make more than a dent on this swollen purchasing power (August).

War Manpower Commission to Meet with AMA at Conference in New York on Sept. 29-30

Government's Manpower Program to be Told to AMA Members by Key Officials; Specific Questions on Labor Allocations, Transfers, Etc. To Be Answered in Q & A Sessions

HARPER, HERSHEY, McSHERRY, FLEMMING, CORSON, DAVIS, LAPHAM AMONG ROSTER OF SPEAKERS

The War Manpower Commission will meet with industrial managers to outline the program the Commission has developed to meet the manpower problem at a Conference of the American Management Association to be held September 29-30 in New York City.

Companies from virtually every industry in the United States will have representatives at the sessions which will be featured by addresses by the members of the War Manpower Commission and by discussions of specific labor supply questions. The Conference has been planned under the direction of L. A. Appley, Vice President of Vick Chemical Company and Vice President in charge of AMA's Personnel Division.

Speakers at Manpower Sessions

The speakers of the Conference, which will be held at the Hotel Pennsylvania, include: Fowler V. Harper, Deputy Chairman, War Manpower Commission; Major General Lewis B. Hershey, Director, Selective Service System; Brigadier General Frank J. McSherry, Director of Operations, War Manpower Commission; Arthur Flemming, Commissioner, United States Civil Service Commission; and John Corson, Director, United States Employment Service.

Other speakers will be: Lieutenant Colonel George H. Baker, Chief, Manpower Division, Selective Service System; Edward C. Elliott, Professional and Technical Personnel Division, War Manpower Commission; R. E. Gillmor, Management-Labor Policy Committee, War Manpower Commission; Clinton S. Golden, Assistant to President, United Steelworkers of America; and Anna Rosenberg, Regional Director, Social Security Board.

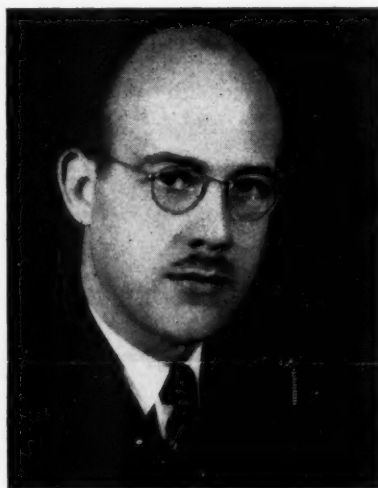
Other Subjects to be Considered

Hundreds of questions which the Association has received from companies throughout the country will form the basis of discussion at the sessions. The questions relate to such subjects as worker supply, labor allocations, transfers of workers, and military deferment of key workers. The role of the United States Employment Service as a central hiring agency, union problems in the transfer of workers, the drafting of young technical students, and operations of regional manpower commissions are other subjects listed for discussion.

War Labor Relations Problems

Other sessions of the Conference will be devoted to War Labor Relations problems: "Wage Stabilization," "Keeping Manpower at Work," and "Dealing with the War Labor Board."

William H. Davis, Chairman of the War Labor Board, will address a dinner session on Tuesday evening, September 29, and Roger Lapham, Employer Member of the WLB, will address a luncheon



LAWRENCE A. APPLEY

meeting on Wednesday on the topic "Labor Relations of Tomorrow."

Among other speakers at the labor relations sessions will be Robert F. Black, President, White Motor Company; Cyrus S. Ching, Director of Industrial and Public Relations, United States Rubber Company; Robert J. Watt, International Representative, A. F. of L., National War Labor Board; Thomas Roy Jones, President, American Type Founders, Inc.; Dale Purves, Vice President, John B. Stetson Company; and Charles R. Hook, Assistant to the President, Rustless Iron and Steel Corporation.

Solutions to Wartime Office Problems To Be Advanced by AMA Chicago Conference

That office output with attendant problems has been mounting in proportion to increased factory output is disclosed by AMA surveys preparatory to formulating the program of the Office Management Conference to be held at the Drake Hotel in Chicago on October 15-16.

Office managers are requesting help on many problems precipitated by the war. Chief among these, according to the surveys, are difficulties in obtaining and maintaining both personnel and office supplies and equipment.

Wartime Office Problems

Among the dominating topics for discussion requested in the replies to questionnaires are the combatting of the loss of office workers to the factory and other jobs; the effect of the War Manpower Commission's directives on the supply of office personnel; the adjustment of office salaries to meet competitive conditions and tests for new office workers.

Other topics in connection with induction procedures which members would like to hear about are new developments in interviewing techniques and in selecting and training policies. Methods of upgrading women for supervisory and executive jobs are also requested, as well as practices for handling grievances satisfactorily.

The outlook for office supplies and their maintenance, measures to be taken for effective utilization of office machines, substitute materials and methods, and enlisting cooperation for conserving office supplies will receive attention. Ways to increase output and to decrease the use of supplies are also slated for discussion.

Register Early For Manpower Conference

Members are urged to send their registrations for the Manpower Conference to the Association as early as possible and also to make their Pullman and hotel reservations promptly to insure best accommodations.

